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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016 / 2017 SESSION

DEC5078 – INTRODUCTION TO ECONOMICS

(All sections / Groups)

7 OCTOBER 2016
3.00 PM –5.00 PM
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 13 pages with 2 sections.
2. For section A , shade your answers on the OMR sheet provided.
3. For section B, write your answers in the answer booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS (each question carries 1 mark).
Answers for this section should be shaded on the OMR form.

1. Economics is best defined as the study of how people, business, governments, and societies _____.
 - A. choose abundance over scarcity
 - B. make choices to cope with scarcity
 - C. use their infinite resources
 - D. attain wealth

2. Fundamental economic problems basically arise from _____.
 - A. the fact that society has more than it needs
 - B. turmoil in the stock market
 - C. the unequal distribution of income
 - D. our wants exceeding our scarce resources

3. The problem of "scarcity" applies _____.
 - A. only in industrially developed countries because resources are scarce in these countries
 - B. only in underdeveloped countries because there are few productive resources in these countries
 - C. only in economic systems that are just beginning to develop because specialized resources are scarce
 - D. to all economic systems, regardless of their level of development

4. The production possibilities frontier _____.
 - A. depicts the boundary between those combinations of goods and services that can be produced and those that cannot given resources and the current state of technology
 - B. shows how many goods and services are consumed by each person in a country
 - C. is a model that assumes there is no scarcity and no opportunity cost
 - D. is a graph with price on the vertical axis and income on the horizontal axis

5. Production efficiency occurs when production _____.
 - A. is at a point beyond the production possibilities frontier
 - B. is at any attainable point
 - C. is on the production possibilities frontier
 - D. is on the production possibilities frontier or inside it

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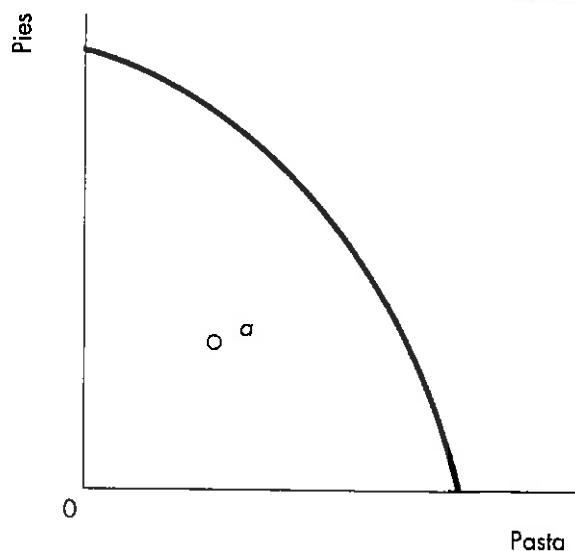


Figure 1.1

6. The figure 1.1 above shows Roger's production possibilities frontier. Point *a* is an _____ point and at that point production is _____.
A. attainable; efficient
B. attainable; inefficient
C. unattainable; inefficient
D. unattainable; efficient
7. A country that **MUST** decrease production of one good in order to increase the production of another _____.
A. must be using resources inefficiently
B. must be producing beyond its production possibilities frontier
C. must be producing on its production possibilities frontier
D. must have private ownership of property
8. The quantity demanded of a good or service is the amount that _____.
A. a consumer would like to buy but might not be able to afford
B. consumers plan to buy during a given time period at a given price
C. is actually bought during a given time period at a given price
D. firms are willing to sell during a given time period at a given price

Continued...

9. The price of cereal rises. As a result, people have cereal for breakfast on fewer days and eat eggs instead. This behavior is an example of _____.

- A. a decrease in the quantity demanded of cereal because of the substitution effect
- B. an increase in the quantity demanded of eggs because of the income effect
- C. a decrease in the quantity supplied of cereal because of the substitution effect
- D. an increase in the quantity supplied of eggs because of the income effect

10. Each point on the demand curve reflects _____.

- A. all the wants of a given household
- B. the highest price sellers will accept for all units they are producing
- C. the lowest-cost technology available to produce a good
- D. the highest price consumers are willing and able to pay for that particular unit of a good

11. A bakery can produce either cakes or cookies. If the price of cookies rises, then _____.

- A. the supply curve of cake shifts rightward
- B. the supply curve of cake shifts leftward
- C. there is a movement downward along the supply curve of cakes
- D. there is a movement upward along the supply curve of cakes

12. The price elasticity of demand for furniture is estimated at 1.3. This value means a one percent increase in the _____.

- A. price of furniture will increase the quantity of furniture demanded by 1.3 percent
- B. quantity of furniture demanded will decrease the price of furniture by 1.3 percent
- C. price of furniture will decrease the quantity of furniture demanded by 1.3 percent
- D. quantity of furniture demanded will increase the price of furniture by 1.3 percent

13. Demand is inelastic if _____.

- A. a large change in quantity demanded results in a small change in price
- B. the quantity demanded is very responsive to changes in price
- C. the price elasticity of demand is less than 1
- D. the price elasticity of demand is greater than 1

Continued...

14. If goods are complements, then their _____.

- A. cross elasticities are negative
- B. income elasticities are negative
- C. income elasticities are positive
- D. cross elasticities are positive

15. Unit elastic demand means that the _____.

- A. ratio of a percentage change in the quantity demanded to a percentage change in the price equals 1
- B. ratio of a change in the quantity demanded to a change in the price equals 1
- C. demand curve is vertical
- D. demand curve is horizontal

16. Utility is best defined as _____.

- A. the amount one is willing to pay for a good
- B. the price of a good
- C. the practical usefulness of a good
- D. the satisfaction from consuming a good

17. Which of the following is **NOT** an assumption of marginal utility theory?

- A. A consumer derives utility from the goods consumed.
- B. Each additional unit of consumption yields additional utility.
- C. As more of a good is consumed, the decrease in the marginal utility from the good means that the total utility from the good decreases also.
- D. Consumers maximize their total utility.

18. As Shamsul's consumption of rice goes up, his _____.

- A. average utility from consuming rice increases
- B. total utility from consuming rice increases
- C. marginal utility from consuming rice increases
- D. elasticity of utility from consuming rice increases

19. The marginal utility from the consumption of a good is equal to the _____.

- A. total utility divided by the quantity consumed
- B. total utility divided by the price
- C. change in total utility divided by the change in the quantity consumed
- D. change in total utility divided by the change in price

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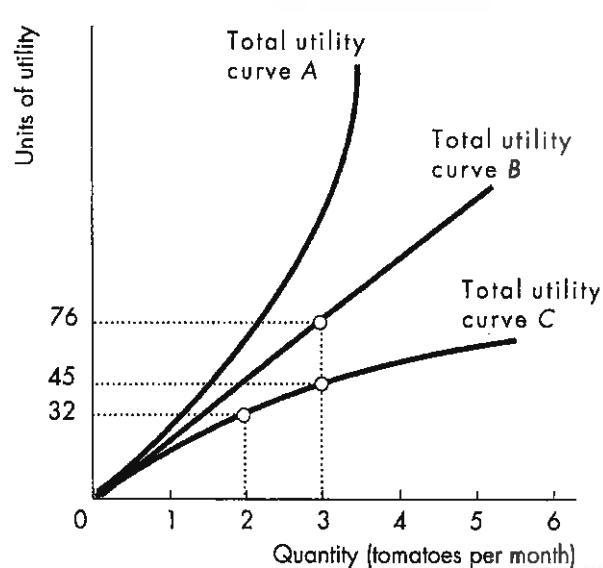


Figure 1.2

20. From figure 1.2, diminishing marginal utility is shown by _____.

- A. total utility curve *A*
- B. total utility curve *B*
- C. total utility curve *C*
- D. all three curves

21. For a consumer, a budget line shows the boundary between _____.

- A. what is desired and what is not desired
- B. what is needed and what is not needed
- C. what is available and what is not available
- D. what is affordable and what is not affordable

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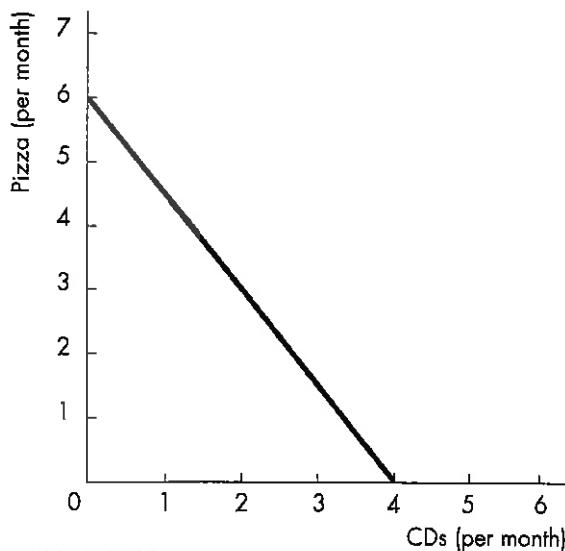


Figure 1.3

22. Given the budget line in the above figure 1.3, if income is RM60, then the price of a pizza is _____ and the price of a CD is _____.
- A. RM10; RM15
 - B. RM15; RM15
 - C. RM6; RM4
 - D. RM5; RM20
23. In perfect competition, the _____.
- A. market demand for the good or service is small relative to the minimum efficient scale of a single producer
 - B. market demand for the good or service is large relative to the minimum efficient scale of a single producer
 - C. market demand for the good or service can be small relative to the minimum efficient scale of a single producer as long as the goods or services are not identical
 - D. size of the market demand for the good or service relative to the minimum efficient scale of a single producer does not affect competition
24. An example of a perfectly competitive industry is _____.
- A. a big city police department
 - B. the market for French impressionists' paintings
 - C. the market for corn in Malaysia
 - D. the National Football

Continued...

25. Firms in perfectly competitive industries have a _____ individual demand curve.
 The shape of the curve is result of the firm being a _____.

- A. downward sloping; price maker
- B. vertical; price taker
- C. downward sloping; price taker
- D. horizontal; price taker

26. A firm's shutdown point is the quantity and price at which the firm's total revenue just equals its _____.

- A. total variable cost
- B. total cost
- C. total fixed cost
- D. marginal cost

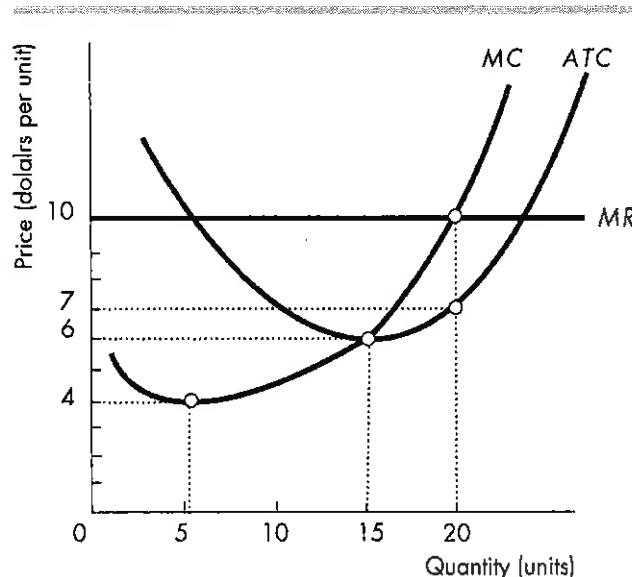


Figure 1.4

27. In the above figure 1.4, the firm will produce at _____.

- A. 0 unit
- B. 5 units
- C. 20 units
- D. 25 units

Continued...

28. A barrier to entry is _____.

- A. a necessary condition for perfect competition
- B. a natural or legal impediment that makes it difficult for new firms to enter a market
- C. the result of highly elastic demand
- D. a brick wall that a firm places around its corporate headquarters

29. Which of the following can create a monopoly?

- I. high prices
- II. public franchise
- III. patent
- IV. government license

- A. I and II.
- B. I and III.
- C. I, II and III
- D. II, III and IV

30. For a monopoly, the market demand curve is the firm's _____.

- A. supply curve
- B. marginal revenue curve
- C. demand curve
- D. profit function

31. A monopolist maximizes its profit by producing the amount of output where
_____.

- A. marginal revenue equals marginal cost
- B. total revenue equals total cost
- C. marginal revenue equals zero
- D. price equals marginal cost

32. A monopolist can make an economic profit in the long run because of
_____.

- A. the relatively elastic demand for its product
- B. barriers to entry
- C. the relatively inelastic demand for its product
- D. the firm's price setting behavior

Continued...

33. Firms in monopolistic competition charge prices that are _____ those of the other firms in the market.

- A. close to
- B. very different from
- C. the same as
- D. completely unrelated to

34. Which of the following is NOT true of monopolistic competition?

- A. There is free entry and exit.
- B. There are a large number of firms.
- C. Firms produce a good that is a perfect substitute for their competitors' goods.
- D. Firms can compete on price and quality.

35. In monopolistic competition, when firms make an economic profit, _____.

- A. the existing firms continue to make an economic profit in the long run because of product differentiation
- B. new firms enter the industry so that output decreases and the economic profit increases
- C. new firms enter the industry so that output increases and the economic profit increases
- D. new firms enter the industry so that the price falls and the economic profit eventually falls to zero

36. A market structure in which a small number of producers compete against each other is _____.

- A. monopolistic competition
- B. oligopoly
- C. monopoly
- D. perfect competition

37. One difference between oligopoly and monopolistic competition is that _____.

- A. fewer firms compete in oligopoly than in monopolistic competition
- B. monopolistic competition has barriers to entry
- C. in monopolistic competition, the products are identical
- D. a monopolistically competitive industry has fewer firms

Continued...

38. Game theory is distinctive in that its elements are _____.

- A. costs, prices, and profits
- B. revenues, elasticity, and profits
- C. rules, strategies, payoffs, and outcomes
- D. patents, copyrights, and barriers to entry

39. A duopoly occurs when _____.

- A. there are only two producers of a particular good competing in the same market
- B. there are numerous producers of two goods competing in a competitive market
- C. there are two producers of two goods competing in an oligopoly market
- D. the one producer of two goods sells the goods in a monopoly market

40. In _____ market structure, a firm's output depends on _____.

- A. an oligopoly; only on its own marginal revenue and marginal cost curves
- B. a monopolistically competitive; in part on its competitors' price and quantity decisions
- C. a monopolistically competitive; only on its marginal revenue curve
- D. an oligopoly; in part on its competitors' price and quantity decisions

[TOTAL 40 MARKS]

Continued...

SECTION B: STRUCTURED QUESTIONS**Answer ALL questions. Answers should be written on the answer booklet provided.****QUESTION 1**

Price (RM per bushel)	Quantity demanded (bushel)
8.00	2,000
7.00	4,000
6.00	6,000
5.00	8,000
4.00	10,000
3.00	12,000

Exhibit 1

- (a) Table in Exhibit 1 gives the demand schedule for peanuts.
- Calculate the price elasticity of demand when the price changes from RM6.00 to RM7.00 per bushel. (4 marks)
 - If the price of peanuts falls from RM4.00 to RM3.00 a bushel, what will happen to the total revenue? Show the working. (4 marks)
- (b) Explain THREE (3) firm's profit constraint which is limited in the environment. (6 marks)

Labor (workers)	Total product (units)	Marginal product	Average product
0	0	0	0
1	(i)	3	(ii)
2	(iii)	(iv)	4.5
3	14	(v)	(vi)
4	(vii)	3	(viii)
5	19	(ix)	(x)
6	(xi)	1	(xii)

Exhibit 1.2

- (c) Complete the table above in exhibit 1.2 from (i) until (xii). (6 marks)
[20 MARKS]

Continued...

QUESTION 2

Item	RM (billions)
Government expenditure on goods and services	250
Compensation of employees	1,675
Gross private domestic investment	325
Rental income	20
Personal consumption expenditures	1425
Net interest	40
Net exports of goods and services	100
Indirect business taxes and depreciation	300

Exhibit 1.3

- (a) Briefly define gross domestic product (GDP). (2 marks)
- (b) Given information from exhibit 1.3, calculate GDP using expenditure approach. (3.5 marks)
- (c) Aside of expenditure approach, briefly explain another approach can be used to measure GDP. (2.5 marks)
- (d) Differentiate between nominal and real GDP. (2 marks)

[10 MARKS]**QUESTION 3**

- (a) Explain **THREE (3)** functions of money. (6 marks)

Bank Negara Malaysia (the Central Bank of Malaysia), is a statutory body which started operations on 26 January 1959 and governed by the Central Bank of Malaysia Act 2009.

- (b) Briefly explain **FOUR (4)** functions of Bank Negara Malaysia. (8 marks)

[14 MARKS]**Continued...**

QUESTION 4

- (a) List **TWO (2)** reasons why unemployment is a problem. (2 marks)
- (b) Describe **THREE (3)** types of unemployment. (6 marks)
- (c) Explain inflation and how it is being measured? (2 marks)
- (d) Persistently high inflation can have damaging economic and social consequences.
Discussed **THREE (3)** damages caused by this problem. (6 marks)

[16 MARKS]

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